

Call for Input: Energy Networks Ring Fence Review

Issued by: Ofgem

Territorial extent: Great Britain

Response author: SGN

Deadline for responding: 11th November 2024



SGN

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Via email to: RegFinance@ofgem.gov.uk

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Call for Input: Energy Networks Ring Fence Review

Thank you for the opportunity to respond to the above Call for Input¹ (Cfi) in relation to the ring fenced licence conditions. Rather than respond to the specific questions raised, we would like to provide more general feedback on the proposed areas for consideration.

SGN manages the network which distributes natural and green gas to approximately six million homes and businesses across Scotland and southern England. Our pipes deliver gas safely, reliably and efficiently to each of these customers, doing so by balancing asset health against good value for money.

We agree with the stated objective of the ring fence arrangements in “managing the risk of a licensee getting into financial distress and... [protecting]...the regulated asset base and therefore consumers”², however at present do not see the justification for, in particular any higher, intervention.

We recognise that this Cfi likely represents the first step in a longer review process, and as such the more granular details in relation to the case for change are not yet clearly defined. However, given our commitment to protecting our customers’ interests, we consider that further clarity is required at this stage to ensure that the specific challenges in the current arrangements are well understood in order to ensure that any remedial steps are proportionate, deliver good customer outcomes and avoid any adverse unintended consequences. In particular, the case for change specifically in relation to energy distribution (gas and electricity) should be clearly articulated, as we do not consider that the asserted risks identified in the Cfi are demonstrated to be risks to our sector and the companies within it - for example, our history of strategic investment into maintaining a strong asset base is relatively specific to the distribution sector, and as such parallels with other asset-based companies, such as those in the water sector, do not necessarily stand. We would also query the assertions with regards to ownership and financing structures – no data has been presented to demonstrate that these structures present increased risk to consumers, and similarly no data has been presented to indicate the benefits which covenanted structures could bring in terms of value for money for consumers.

With the above observations in mind, at present we do not consider that there is sufficient detail available for us to comment further. Should you wish to discuss our comments, or if we can support Ofgem in your review, please do not hesitate to contact me at hilary.chapman@SGN.co.uk.

Yours faithfully,

Hilary Chapman

Regulation Manager, SGN

¹ [Energy Networks ring fence review \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/energy-networks/ring-fence-review)

² Consultation document, p4